

# Social protection in the European Union

In 2002, social protection expenditure accounted for 27.7% of GDP in the European Union. The percentage share in one country can be double that of another. Per-capita expenditure at constant prices is increasing at a steady rate.

Expenditure on old-age and survivors functions accounts for a large part of social benefits in most countries. Sickness expenditure has recently shot up.

Different countries have markedly different systems for financing social protection, depending on whether they favour social security contributions or contributions from general government. However, the systems are showing signs of convergence.

## Statistics in focus

### POPULATION AND SOCIAL CONDITIONS

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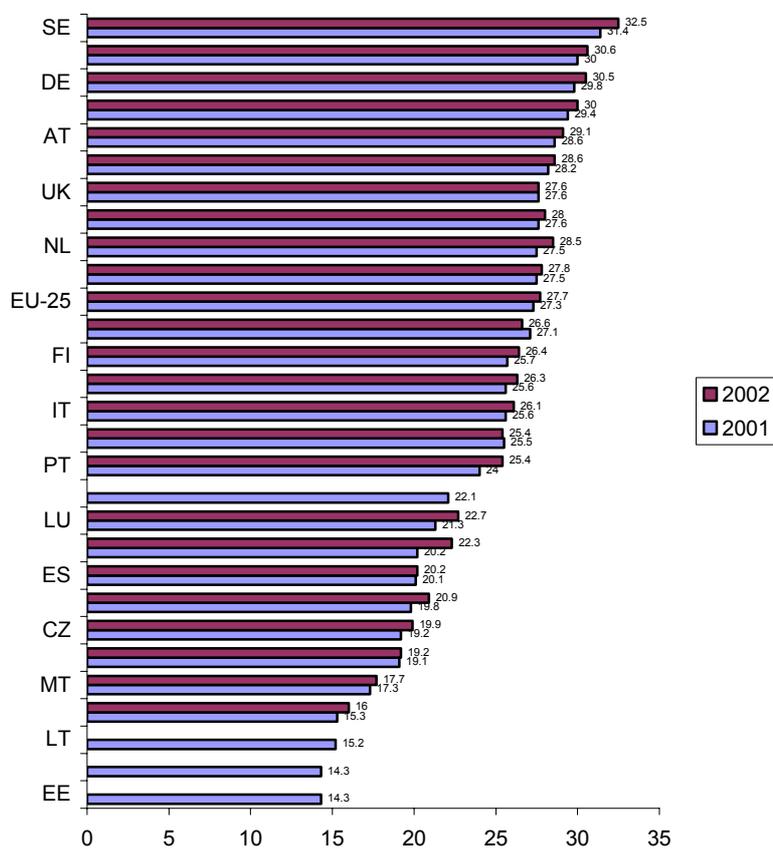
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Figure 1: Expenditure on social protection as percentage of GDP



In 2002, social protection expenditure accounted for 27.7% of GDP in the EU-25 countries (Figure 1). This ratio reflects the recent upward trend experienced in most countries.

Thus, taking the EU-15 countries as a whole (for which there are long series available dating back to 1990), after reaching a maximum share of 28.7% of GDP in 1993 (Table 1), social protection expenditure fell until 2000 when it accounted for 27.3%. This ratio rose again in 2001 (27.6%), in 2002 (28%) and probably in 2003 (see Box "Preliminary estimates for 2003").



In 2002, this increase was almost universal, including in countries not forming part of the EU-15, with the exception of Greece, Slovenia and the United Kingdom.

This increase reflects faster growth in social protection expenditure than in GDP, which slowed considerably in the European Union in 2001 in comparison with 2000 and again in 2002 in comparison with 2001. Social protection expenditure goes towards areas that are either not particularly affected by the economic situation (such as health expenditure and pensions)

**Table 1: Expenditure on social protection (as % of GDP)**

	1993	1995	1997	1999	2001	2002
EU-25 *	:	:	:	:	27.3	27.7
EU-15	28.7	28.2	28.0	27.4	27.6	28.0
BE	29.3	28.1	27.9	27.3	27.5	27.8
CZ	:	17.0	18.3	19.1	19.2	19.9
DK	31.9	32.2	30.4	30.0	29.4	30.0
DE	28.4	28.9	29.5	29.6	29.8	30.5
EE	:	:	:	:	14.3	:
EL	22	22.3	23.3	25.5	27.1	26.6
ES	24	22.1	21.2	20.3	20.1	20.2
FR	30.7	30.7	30.8	30.2	30.0	30.6
IE	20.2	18.9	16.6	14.7	15.3	16.0
IT	26.4	24.8	25.5	25.2	25.6	26.1
CY	:	:	:	:	:	:
LV	:	:	:	:	14.3	:
LT	:	:	:	:	15.2	:
LU	23.3	23.7	22.8	21.7	21.3	22.7
HU	:	:	:	20.7	19.8	20.9
MT	:	:	:	17.2	17.3	17.7
NL	32.3	30.9	29.4	28.0	27.5	28.5
AT	28.2	28.9	28.8	28.9	28.6	29.1
PL	:	:	:	:	22.1	:
PT	21	22.1	21.4	22.6	24.0	25.4
SI	:	:	24.8	25.0	25.5	25.4
SK	:	18.7	20.0	20.2	19.1	19.2
FI	34.5	31.7	29.2	26.8	25.7	26.4
SE	38.2	34.6	32.9	31.8	31.4	32.5
UK	29	28.2	27.5	26.5	27.6	27.6
IS	18.8	19.0	18.9	19.5	20.2	22.3
NO	28.2	26.7	25.3	27.1	25.6	26.3
CH	24.8	25.7	27.5	27.6	28.2	28.6
RO	:	:	:	:	13.1	:

\* In 2001, EU-25 does not include data of Cyprus. In 2002, the ratio for EU-25 is calculated on the basis of the 21 countries for which data are available. These countries accounted for 98% of social protection expenditure in 2001.

Source: Eurostat-ESSPROS.

or, on the contrary, are counter-cyclical (unemployment or social exclusion).

The situation in some new Member States (Estonia, Latvia, Lithuania, Slovakia) is somewhat different to that in other countries of the European Union, since in 2001 and 2002, GDP in these countries continued to show strong growth and social protection expenditure as a percentage of GDP therefore decreased.

**Table 2: Expenditure on social protection per capita at constant prices (Index 100 previous year)**

	1999	2000	2001	2002	Annual average 1998-2002
EU-25 (1)	:	:	102.2	:	:
EU-15 (2)	102.4	102.3	102.3	103.1	102.5
BE	102.0	100.8	102.1	101.4	101.6
CZ	105.5	103.8	103.8	107.7	105.2
DK	100.8	100.3	101.7	101.9	101.2
DE	103.3	101.1	101.0	102.6	102.0
EE	:	:	100.7	:	:
EL	109.1	107.5	107.4	101.8	106.4
ES	102.4	103.5	102.3	102.9	102.8
FR	102.0	101.4	102.2	103.2	102.2
IE	105.4	106.9	112.8	110.1	108.7
IT	102.0	102.1	102.7	103.7	102.6
CY	:	:	:	:	:
LV	:	:	101.0	:	:
LT	:	:	97.9	:	:
LU	107.2	101.9	104.8	106.8	105.1
HU	:	101.4	104.4	115.1	:
MT	101.8	96.6	102.1	102.7	100.7
NL	101.4	101.3	101.7	103.2	101.9
AT	104.5	100.3	101.4	102.7	102.2
PL	:	:	107.1	:	:
PT	106.9	104.9	105.9	106.5	106.1
SI	105.5	101.9	104.5	103.2	103.8
SK	99.5	96.3	100.4	106.5	100.6
FI	100.5	99.2	101.3	102.4	100.8
SE	102.8	101.2	102.4	105.0	102.8
UK	101.3	106.1	103.4	103.1	103.5
IS	107.0	104.2	104.1	110.7	106.5
NO	106.0	104.3	105.3	101.3	104.2
CH	100.5	101.3	102.8	101.0	101.4

(1) EU-25 does not include data of Cyprus

(2) see calculation method in page 11

Source: Eurostat-ESSPROS.

## Social protection (as a percentage of GDP) in some countries is double that of others

Average social protection expenditure as a percentage of GDP (27.3 % in 2001) in the EU-25 masks wide disparities between Member States.

Sweden (31.4%), France (30.0%), Germany (29.8%) and Denmark (29.4%) have the highest ratios, while Estonia and Latvia have the lowest (14.3%), with the ratio for Romania (EU candidate country) just below this level (13.1%).

If social protection expenditure is expressed in terms of per-capita PPS (purchasing power standards), the differences between countries are more pronounced and the rank order of countries is a little different (Figure 2).

Within the EU-25, Luxembourg had the highest expenditure in 2001 (9 700 PPS per capita)<sup>1</sup>, followed by Denmark (7 928 PPS

per capita). The Baltic States, on the other hand, were characterised by smaller expenditure: 1 300 PPA per capita (or less).

Outside the EU-25, expenditure is highest in Norway (more than 8 600 PPA), just below Luxembourg.

The rank order of countries is similar if the per-capita GDP expressed in PPS is used.

The disparities between countries are partly related to differing levels of wealth and also reflect differences in social protection systems, demographic trends, unemployment rates and other social, institutional and economic factors.

<sup>1</sup> Luxembourg is a special case in so far as a considerable proportion of benefits are paid to people living outside the country (primarily expenditure on health care, pensions and family benefits). If this particular feature is disregarded, expenditure falls to approximately 8 000 PPS per capita.

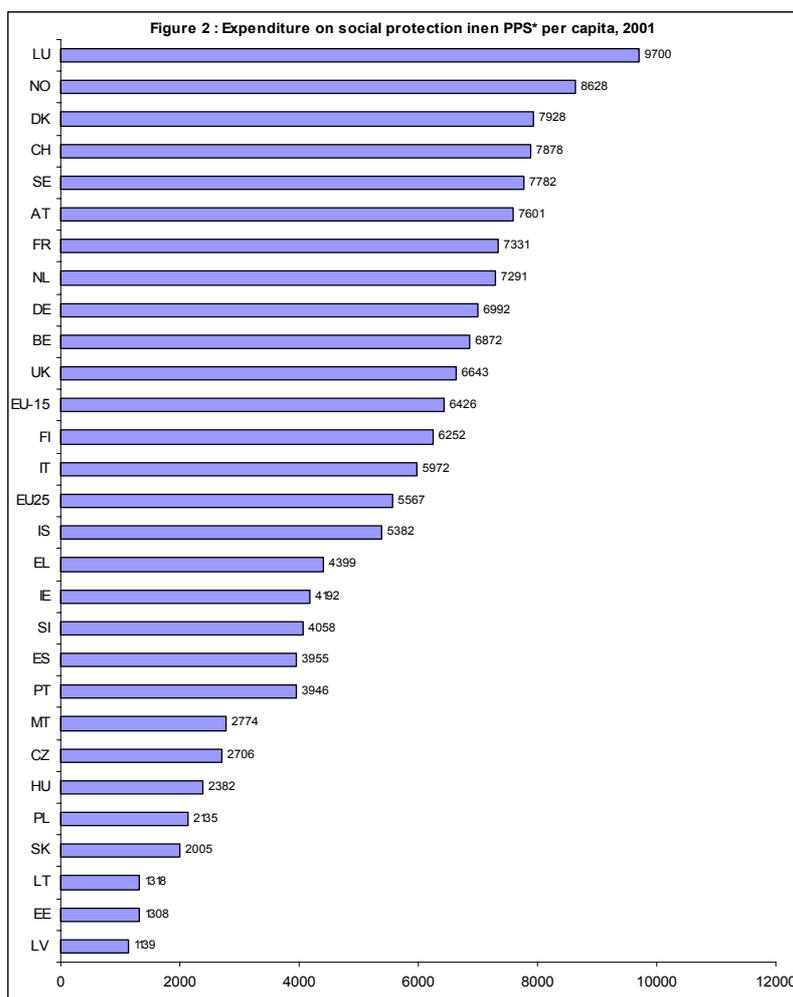
## Growth in per-capita expenditure at constant prices picked up in 2002

Per capita social protection expenditure at constant prices has increased steadily since 1999: in the EU-15 it increased by an average of 2.5% per annum during the period 1998-2002 (Table 2). It also increased significantly in the Czech Republic and Slovenia.

Taking a longer period and only the EU-15 countries into account, while expenditure increased continually during the decade 1992-2002, the years 1994, 1995 and 1997 were marked by a fall in average growth (less than 1% compared to the average of 1.8% for the decade 1992-2002 as a whole).

Over the last four years, the increase was particularly pronounced in Ireland (8.7% per annum), Greece (6.4%

per annum), Portugal (6.1% per annum), the Czech Republic (5.2% per annum) and Luxembourg (5.1% per annum). Outside the EU, Iceland also experienced significant growth (6.5% per annum). In Malta, Slovakia and Finland, on the other hand, per capita expenditure increased in real terms by less than 1% per annum during the same period. In 2002, the increase in expenditure in the EU-15 (+3.1%) was greater than that of the three previous years. The growth in expenditure in Hungary, Iceland and Ireland went into double figures and in a third of countries for which data are available social protection expenditure increased by more than 5% at constant prices. Expenditure increased the least in Belgium, Denmark, Greece, Norway and Switzerland (less than 2%).



\* Purchasing Power Standards (PPS): independent unit of any national currency that removes the distortions due to price level differences. The PPS value are derived by using Purchasing Power Parities (PPPs) that are obtained as a weighted average of relative price ratios in respect of a homogeneous basket of goods and services, comparable and representative for each Member State.

## Preliminary estimates for 2003

Ten countries\*, which in 2001 accounted for 48% of social protection expenditure in the EU-25 (50% of expenditure in the EU-15 in 2002), have provided estimates for 2003.

In this group of countries, social protection expenditure in 2003 increased slightly faster than GDP (Table 3) and accounted for 27.3% of GDP (compared with 26.9% in 2002). The ratio grew fastest in Ireland, Luxembourg, the Netherlands and Denmark.

At +2.9% in 2003, the increase in benefits at constant prices was a little slower than in 2002 (+3.4% for these ten countries and +3.3% for the EU-15). This increase was the net result of divergent trends in social protection functions. Unemployment expenditure continued its sharp increase

in the wake of the deteriorating European labour market from the end of 2001 onwards: the unemployment rate in the EU-15 increased from 7.2% in the third quarter of 2001 to 7.7% in the final quarter of 2002 and to 8.0% in the final quarter of 2003. Sickness-related expenditure continued its rapid growth but at a slightly slower rate, continuing the trend observed since 1998. The other functions increased at a more moderate rate; family benefits and those linked to social exclusion increased the least, for family benefits a result of the declining number of people under 20 years of age in Europe (22.7% of the population of the EU-15 in January 2001 and 22.2% in January 2004).

**Table 3: Expenditure on social protection in 2002 et 2003 in 10 countries\* or The European Union**

	As % of GDP	Annual rate of growth in real terms in euros						
		Total benefits	Old age and survivors' functions	Sickness, health care function	Disability function	Family, children function	Unemployment function	Housing and social exclusion functions
2002	26.9	3.4%	2.2%	4.3%	3.6%	2.0%	8.7%	3.0%
2003	27.3	2.9%	2.3%	3.3%	2.8%	2.1%	6.6%	1.5%

Source : Eurostat-ESSPROS

\* Belgium, Denmark, Greece, Spain, France, Ireland, Italy, Luxembourg, Netherlands, Finland

## Old age and survivors functions account for a major share of total benefits

In the EU-25 in 2001, benefits under the old age and survivors functions accounted for the largest share of social protection expenditure: 46.2% of total benefits (Table 4).

These functions are particularly important in Italy<sup>1</sup>, where they accounted for more than 62% of total benefits. Contributory factors include the high percentage of the population aged 60 or over (24.5% in January 2001 compared with average of 21.2% in the EU-25). Greece, Latvia, Malta, Austria and Poland (and Switzerland outside the EU) are also widely above the European average.

In Ireland<sup>2</sup>, by contrast, benefits under the old age and survivors functions accounted for less than 24% of total benefits. This is partly due to the fact that the population of Ireland is the "youngest" in Europe: 30% of the population were under 20 years of age in January 2001 (compared to an EU-25 average of 23.3%) and barely 15.1% were over 60.

The sickness/health care function accounted for just under 28% of all benefits. It outweighed the old-age and survivors functions in Ireland and, outside the EU-25, in Iceland and Norway. More than a third of the benefit expenditure of the Czech Republic and Slovakia went towards this function. In Denmark, Latvia and Poland, on the other hand, this function accounted about 20% of total benefits.

<sup>1</sup> In Italy these functions also include severance allowances (TFR - trattamento di fine rapporto), which partly comes under the unemployment function. These benefits represent some 6% of total social benefits.

<sup>2</sup> For Ireland, no data are available regarding (funded) occupational pension schemes for private-sector employees.

**Table 4: Social benefits by group of functions in 2001**  
(as % of total social benefits)

	Old age and survivors	Sickness/health care	Disability	Family / Enfants	Unemployment	Housing and social exclusion
<b>EU-25</b>	<b>46.2</b>	<b>27.9</b>	<b>8.2</b>	<b>8.0</b>	<b>6.2</b>	<b>3.5</b>
<b>EU-15</b>	<b>46.1</b>	<b>28.0</b>	<b>8.0</b>	<b>8.0</b>	<b>6.3</b>	<b>3.6</b>
BE	44.1	24.7	9.3	8.7	11.6	1.6
CZ	42.5	34.6	8.5	8.2	3.1	3.3
DK	38.0	20.3	12.5	13.3	10.0	6.0
DE	42.5	28.7	7.8	10.4	8.2	2.5
EE	42.6	31.0	7.8	14.6	1.3	2.7
EL	51.4	25.8	5.0	6.7	6.0	5.1
ES	45.3	30.0	7.6	2.6	12.9	1.7
FR	43.7	29.2	6.0	9.5	7.1	4.4
IE	24.4	42.2	5.1	14.4	8.5	5.3
IT	62.3	26.1	5.7	4.1	1.6	0.3
CY	:	:	:	:	:	:
LV	56.4	19.1	9.6	10.1	3.6	1.3
LT	47.4	30.0	8.8	8.3	1.9	3.5
LU	37.5	25.2	14.7	16.0	3.4	3.2
HU	42.4	27.5	10.3	12.9	3.4	3.5
MT	53.8	25.5	6.1	6.5	6.0	2.0
NL	41.8	30.4	11.5	4.4	5.0	6.8
AT	49.9	25.3	7.8	10.5	4.9	1.6
PL	55.2	19.2	13.3	7.8	4.3	0.2
PT	45.8	31.3	12.3	5.6	3.6	1.3
SI	45.5	31.4	8.7	8.9	3.7	1.8
SK	38.2	35.0	8.1	8.2	3.6	6.8
FI	36.6	24.5	13.7	12.1	9.8	3.3
SE	40.0	26.9	13.3	9.7	5.7	4.3
UK	46.3	27.6	9.3	6.8	3.5	6.4
IS	30.6	38.5	13.6	13.0	1.5	2.9
NO	30.5	34.5	16.5	12.8	2.6	3.1
CH	50.8	25.9	12.8	5.0	2.4	3.1

\* EU-25 does not include data of Cyprus

Source: Eurostat-ESSPROS.

Benefits relating to the disability function accounted for almost 14% of the total in Finland and Luxembourg<sup>1</sup> compared with an average of 8.2% in the EU-25. The share represented by this expenditure was also high in Poland, Denmark and Sweden; for the latter two countries, more than 30% of the benefits relating to disability were benefits in kind. Outside the EU-25, Norway was the country that spent the most on the disability function (16.5% of total social benefits). In Greece, Ireland and Italy, by contrast, disability benefits accounted for less than 6% of the total and in France and Malta they represented 6%.

The family/children function accounted for 8% of all benefits in the EU-25. Expenditure on this function represented more than 12% of total benefits in Luxembourg (ranking highest at 16%), Estonia, Ireland, Denmark, Hungary and Finland. The same was true of Iceland and Norway. In Spain, Italy and the Netherlands, however, benefits related to this function amounted to less than 5% of total social benefits.

There are major differences between Member States as regards the weight of unemployment benefits: while the average for the EU-25 was 6.2% of total benefits, the share of the total amounted to more than 12% for countries such as Belgium and Spain. By contrast, in Estonia, Italy, Lithuania and, outside the EU-25, in Iceland, Norway and Switzerland, unemployment benefits accounted for less than 3% of expenditure.

It should be noted that the total value of unemployment benefits does not always correlate with the level of unemployment in the various countries. There are substantial differences in coverage, the duration of benefits and the value of individual benefits. Thus, in Sweden and the United Kingdom, which had the same level of unemployment in 2001 (approximately 5%), unemployment benefits accounted for 5.7% and 3.5% respectively of their social benefits, while the average value of benefits (expressed in purchasing power parities) per unemployed person was twice as high in Sweden as it was in the United Kingdom.

The structure of social benefits has been relatively stable over time. However, there were some changes between 1992 and 2002, e.g. for the group formed by the EU-15 countries. The relative importance of the old-age/survivors function increased steadily (by 1.5 points over the period). At the same time, the share accounted for by sickness benefits returned to its 1992 level after an intervening fall. Lastly, the share of unemployment benefits declined from 9% to 6.6% of total benefits, although it did increase again in 2002.

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<sup>1</sup> *In Luxembourg a new "dependence insurance" category was introduced in 1999. These benefits account for about 3% of total social benefits. According to the 1996 ESSPROS Manual, most of these benefits should be recorded under the old-age function.*

## A surge in sickness expenditure

The changes observed concerning the different functions are a result of changing needs, fluctuations in the economy, demographic trends and modifications to social protection legislation.

Thus, between 1998 and 2002, social benefits developed at different speeds in respect of different functions. Taking all benefits together, the growth over this period was on average 2.8% per annum in the EU-15 (*Table 5*), the group of countries that have sufficiently long time series (*see Methodological notes*).

With regard to the average increase of benefits as a whole, there is a wide range of variation, with Slovakia at one end of the scale with an increase of 0.8%, and Ireland at the other with an increase of 10.4%. There was also a significant increase in benefits in countries such as Portugal, Greece and Luxembourg, whereas the increase in Finland, Denmark and Belgium was a little below average. Moreover, the overall changes in each country stem from the different rate of change of each function.

As regards the major social protection functions, the annual average increases fall within a range of 1.1% to 4.2%, with the unemployment and sickness functions occupying the two extremes.

Expenditure at constant prices under the headings of the old age and survivors functions increased by 2.7% per annum between 1998 and 2002 in the EU-15. The changes in this group were primarily determined by changes in pensions, which represented almost 92% of all old age and survivors benefits in 2002 (78% of which is actually accounted for by old age pensions). If benefits in kind more closely related to old age (home help and housing) are added to old age pensions, 81% of benefits can be linked to the ageing of the population. The percentage of the population aged 60 or over in the EU-15 increased from 21.2% in January 1998 to 22.3% in January 2002 (an annual increase of 1.4% in the number of persons). The differential increase (not resulting from the ageing population) of benefits linked to old age and survivors functions is partly explained by the fact that pensions increased at a faster rate than prices and by the

increase in the average pension of women, who now work for longer than they did in the past. Given the impact of an ageing population on the pension system, several countries have reformed or plan to reform their pension systems, the effects of which will gradually make themselves felt.

The average increase in benefits linked to the old age and survivors functions for the EU-15 aggregate is mainly due to the changes experienced in the principal countries making up the group (Germany, France, Italy, the United Kingdom), which account for 75% of benefits. The most significant increases in the European Union took place in Ireland (7.8% per annum) and Portugal (7.5% per annum); outside the EU, the biggest increase was in Iceland (7.2% per annum). The average increase in benefits was smallest in Denmark (1.0%), Italy (1.5%), Belgium (1.6%) and Switzerland (1.7%).

With an increase in real terms of 4.2% per annum between 1998 and 2002 for the EU-15 as a whole, the sickness/health care function increased at a greater rate than the other functions over this period. Although health-care expenditure increased only slowly in the first half of the decade 1992-2002 (0.3% per annum between 1992 and 1997), it subsequently picked up. This situation reflects, among other things, the efforts certain Member States made to provide universal access to health care. For example, in 1998, Sweden introduced free medical care for children at municipal level and raised the rates of cash sickness benefits. The ageing of the population is also partly responsible for this trend.

The acceleration phase observed since 1998 represents a general trend for the European Union, with the exception of Belgium, Austria and Slovakia (in the latter cash benefits fell sharply in 1999 and throughout the period there was a decline in sick-leave payments, which were reformed in September 1998 to the disadvantage of beneficiaries). The largest increases between 1998 and 2002 took place in Ireland (13.1%) and Greece (9%). Outside the EU, there was also considerable increase in Iceland (annual average of +7.2%).

**Table 5: Social benefits at constants prices - Index, annual average 1998- 2002**

	Old age and survivors	Sickness / health care	Disability	Family / children	Unemployment	Housing and social exclusion	Total benefits
<b>EU-25</b>	:	:	:	:	:	:	:
<b>EU-15 (1)</b>	<b>102.7</b>	<b>104.2</b>	<b>102.2</b>	<b>102.1</b>	<b>101.1</b>	<b>101.3</b>	<b>102.8</b>
BE	101.6	102.0	103.0	100.3	101.2	106.4	101.8
CZ	104.1	106.3	103.2	101.9	108.2	114.7	105.0
DK	101.0	103.5	104.2	102.2	95.7	100.4	101.5
DE	102.2	102.2	101.3	103.8	101.3	98.4	102.1
EE	:	:	:	:	:	:	:
EL	105.2	109.0	109.1	102.9	114.4	110.3	106.9
ES	103.1	104.6	101.8	104.4	104.2	98.6	103.5
FR	102.3	103.9	102.4	101.2	102.6	102.1	102.7
IE	107.8	113.1	110.7	115.9	100.3	109.3	110.4
IT	101.5	105.0	101.8	104.4	94.6	119.0	102.3
CY	:	:	:	:	:	:	:
LV	:	:	:	:	:	:	:
LT	:	:	:	:	:	:	:
LU	103.1	106.6	110.5	110.7	108.4	131.4	106.8
HU	:	:	:	:	:	:	:
MT	102.9	103.0	104.3	92.6	104.5	91.6	101.9
NL	102.7	105.2	101.2	102.9	94.9	100.5	102.6
AT	102.7	102.0	101.2	104.1	102.0	101.3	102.5
PL	:	:	:	:	:	:	:
PT	107.5	106.5	104.7	105.4	102.7	146.5	107.4
SI	104.5	104.2	104.3	104.9	91.0	107.1	103.9
SK	102.2	99.5	108.7	93.1	94.1	109.3	100.8
FI	102.8	103.4	99.2	98.7	96.0	99.1	101.0
SE	102.2	105.5	106.6	103.1	90.0	96.8	102.5
UK	104.7	106.3	101.7	97.3	105.0	101.6	104.0
IS	107.2	107.2	111.2	108.4	101.3	111.5	107.8
NO	103.8	106.1	106.9	102.6	101.0	103.5	104.8
CH	101.7	103.9	104.4	101.7	90.3	99.7	102.0

(1) see calculation method in page 11

Source: Eurostat-ESSPROS.

Disability expenditure increased steadily over the period 1998-2002 in the EU-15 (2.2% per annum on average). Disability pensions accounted for the largest share of this expenditure (55% of the total), the entitlement conditions of which vary enormously from country to country.

However, this expenditure increased most strikingly in Ireland, Luxembourg, Greece and Slovakia (and, outside the EU, in Iceland). In Germany, Austria, the Netherlands and Finland, conversely, this expenditure rose only by a small amount (and indeed fell in real terms in Finland). The two last countries, where the portion of total social benefits represented by this expenditure had been among the highest in 1992 (over 15%), tightened up the eligibility criteria in order to reduce the numbers receiving disability pensions.

Expenditure on the family/children function increased by 2.1% in real terms between 1998 and 2002. This increase is not linked to a rise in the number of children, since the population of people aged between 0-19 years fell by 0.6% between January 1998 and January 2002. Cash family-benefits accounted for almost 60% of the total expenditure for this function and increased considerably over the period in question (+1.7% per annum in euros per capita at constant prices). Depending on the country, this trend is a result of significantly higher rates and family-friendly reforms (changed conditions of access and rates, creation of new benefits).

Expenditure linked to the family and children increased the most in real terms in Ireland, Luxembourg and Iceland during this period. In Ireland, recent reforms of the system for maternity and parental leave caused the rate of the

increase in expenditure to pick up. The situation in Luxembourg is largely due to the rise in the value of family benefits. In Malta, Slovakia, the United Kingdom<sup>1</sup> and Finland, however, expenditure on family benefits decreased in real terms. The decline in the population aged between 0 and 19 years of age between January 1998 and January 2002 in Slovakia (-9.2%) and Finland (-2.1%) is largely responsible for the fall in expenditure in these two countries.

The slow growth in expenditure on the unemployment function stems from the downward trend seen previously, which continued in 1999 and 2000, and from the upsurge in unemployment benefits in 2001, and especially 2002, resulting from the weakening labour market in most countries. The fall noted at the beginning of the period was due partly to a gradual improvement in the economic

situation and partly to reforms of the benefit system in a certain number of countries. It was also the product of restrictions on the period for which benefits are paid and moves towards more restrictive conditions for entitlement to benefits. In several countries, the turnaround did not take place until 2002 (the Czech Republic, Germany, Italy, the Netherlands, Slovakia, Finland, Sweden and Switzerland). Finally, in two countries (Denmark and Slovenia) the trend was the opposite and benefits continued to fall in 2002.

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(1) *The decrease in the United Kingdom results from the "family credit" being turned into the "family tax credit" in 1999, meaning that this provision is not counted as a social benefit in ESSPROS accounting.*

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## Very different financing systems which nevertheless show signs of convergence

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In 2001 the main sources of funding of social protection at EU-25 level were social contributions, representing 60.6% of all receipts, and general government contributions derived from taxes (36%). Social contributions can be broken down into contributions paid by protected persons (employees, self-employed persons, retired persons and others) and those paid by employers (*Table 6*).

The European average masks major national differences in the structure of social protection funding. The part funded through social contributions accounts for more than 70% of all receipts in the Czech Republic, Latvia, Estonia, Belgium and Malta.

Conversely, Denmark and Ireland (and also Norway) finance their social protection systems largely from taxes, these comprising over 60% of total receipts. The United Kingdom, Poland and Sweden (together with Iceland) also rely heavily on general-government contributions (over 45%).

The differences are due to historical reasons and to the institutional reasoning behind social protection systems. Northern European countries where government contributions dominate are thus characterised by the "Beveridgian" tradition (in this type of system, it is enough to be a resident in need in order to be able to claim social benefits). Other countries have a strong attachment to the "Bismarckian" tradition in which the system is based on the insurance concept (in the form of contributions). However, the divergence between European countries is gradually declining with more funding out of tax revenues in the countries where it was low (France, Italy and Portugal for example) on the one hand, and with more weight being given to contributions in the countries with high levels of government contributions on the other.

The share of other receipts (property income and other receipts) was low: 3.3% in 2001 for the EU-25. However, it was well over 10% in the Netherlands and Switzerland because of the large occupational pension funds in these two countries.

Table 6: Receipts of social protection by type (as % of total receipts)

	General Government contributions		Social contributions						Other receipts	
			Total		Employers		Protected persons (1)			
	1995	2001	1995	2001	1995	2001	1995	2001	1995	2001
<b>EU-25*</b>	:	<b>36.1</b>	:	<b>60.6</b>	:	<b>38.9</b>	:	<b>21.7</b>	:	<b>3.3</b>
<b>EU-15</b>	<b>32.2</b>	<b>36.0</b>	<b>63.8</b>	<b>60.6</b>	<b>39.1</b>	<b>38.9</b>	<b>24.7</b>	<b>21.7</b>	<b>4.0</b>	<b>3.4</b>
BE	26.1	25.3	71.0	72.5	48.9	50.4	22.1	22.1	2.9	2.2
CZ	20.9	23.3	78.0	75.4	53.4	50.8	24.6	24.6	1.2	1.3
DK	69.7	62.6	24.0	30.4	10.2	9.3	13.8	21.1	6.3	7.0
DE	28.5	32.4	68.9	65.6	40.2	37.9	28.7	27.7	2.6	2.1
EE	:	27.0	:	72.8	:	72.8	:	0.0	:	0.2
EL	29.0	27.8	60.9	62.0	37.4	38.5	23.5	23.5	10.0	10.2
ES	30.3	26.6	67.1	69.3	50.0	53.0	17.1	16.3	2.7	4.1
FR	21.5	30.4	74.9	66.7	47.4	45.9	27.5	20.8	3.5	2.8
IE	62.8	60.3	36.3	38.3	22.3	24.4	14.0	13.9	0.8	1.4
IT	30.0	41.0	67.6	57.5	50.3	42.8	17.3	14.7	2.3	1.5
CY	:	:	:	:	:	:	:	:	:	:
LV	:	25.2	:	74.8	:	74.8	:	0.0	:	0.0
LT	:	38.6	:	59.9	:	53.7	:	6.2	:	1.5
LU	47.0	42.4	47.8	52.7	25.9	27.4	21.9	25.3	5.2	4.9
HU	:	33.2	:	58.7	:	45.6	:	13.1	:	8.2
MT	:	27.4	:	70.3	:	48.5	:	21.8	:	2.3
NL	17.1	16.3	63.8	66.9	21.0	31.5	42.8	35.4	19.2	16.8
AT	34.7	33.0	64.4	65.3	38.4	38.5	26.0	26.8	0.9	1.8
PL	:	46.4	:	53.1	:	29.7	:	23.4	:	0.4
PT	31.9	37.8	53.6	54.4	35.9	36.4	17.7	18.0	14.5	7.8
SI	:	32.6	:	65.8	:	26.5	:	39.3	:	1.5
SK	35.5	32.5	62.6	65.1	46.4	46.6	16.2	18.5	1.9	2.5
FI	45.8	42.7	47.4	50.3	33.7	38.8	13.7	11.5	6.9	6.9
SE	49.5	45.3	42.6	52.4	37.3	43.1	5.3	9.3	7.9	2.3
UK	50.5	48.5	48.7	49.7	25.4	30.2	23.3	19.5	0.9	1.8
IS	61.2	45.5	38.9	46.0	30.7	38.0	8.2	8.0	0.0	8.5
NO	62.2	61.2	37.0	37.7	22.6	24.4	14.4	13.3	0.9	1.1
CH	19.2	22.0	62.1	65.2	31.9	32.0	30.2	33.2	18.8	12.8

(1) Employees, self-employed, pensioners and other persons

\* EU-25 does not include data of Cyprus

Source: Eurostat-ESSPROS.

## ➤ ESSENTIAL INFORMATION - METHODOLOGICAL NOTES

Source: Eurostat-ESSPROS

### Methods and concepts

The data on social protection expenditure and receipts have been calculated in accordance with the methodology of the European System of Integrated Social Protection Statistics "ESSPROS Manual 1996". Expenditure includes social benefits, administrative expenditure and other expenditure incurred by social protection schemes. The ESSPROS Manual 1996 classifies social benefits into the following eight functions: sickness/health care, disability, old age, survivors, family/children, unemployment, housing, social exclusion "not elsewhere classified" (n.e.c.).

Social benefits are recorded without deduction of taxes or other compulsory levies payable by beneficiaries. "Tax benefits" (tax reductions granted to households as part of social protection) are generally excluded.

### Calculation of indices in Tables 2 and 5

Wide annual fluctuations in conversion rates between the ECU/euro and national currencies made it necessary to use something other than an ECU/euro index in these tables for the EU-15 aggregate.

At EU-15 level, the indices are obtained from a weighted average of each country's annual index (in national currency). The expenditure of the countries in ECU/euro the previous year serves as the basis for the weighting (for example, 1998 expenditure for the weighted index for 1999/1998, 1999 expenditure for the weighted index for 2000/1999, etc.).

### Abbreviations

The EU-15 includes Belgium (BE), Denmark (DK), Germany (DE), Greece (EL), France (FR), Ireland (IE), Italy (IT), Luxembourg (LU), the Netherlands (NL), Austria (AT), Portugal (PT), Finland (FI), Sweden (SE) and the United Kingdom (UK).

The European Union (EU-25) includes the countries of the EU-15 and the Czech Republic (CZ), Estonia (EE), Cyprus (CY), Latvia (LA), Lithuania (LT), Hungary (HU), Malta (MT), Poland (PL), Slovenia (SI) and Slovakia (SK).

IS = Iceland, NO = Norway, CH = Switzerland, RO = Romania.

### Remarks concerning the data

Data for the EU-25 as a whole (except Cyprus) are available for the first time. However, the series for the new Member States are not uniform in length: data from 1998 are available only for CZ, MT, SI and SK; the series for the other countries will be completed by the end of 2005.

The figures for Spain (for the period 1992-1994) were calculated according to the old national-accounts methodology ESA79; the figures for other countries were calculated in accordance with ESA95.

The 2002 data are provisional for BE, CZ, DE, ES, FR, IE, IT, LU, NL, PT, SI, SK, SE and UK.

### Eurostat reference publications

Methodology: "ESSPROS Manual 1996" 1996.

Data: "European Social Statistics: Social protection 1994-2002".

## ***Further information:***

### **Databases**

[EUROSTAT Website/Population and social conditions/Living conditions and welfare/Social protection/Expenditure - Summary tables/Expenditure: main results](#)

[EUROSTAT Website/Population and social conditions/Living conditions and welfare/Social protection/Social protection receipts/Receipts - Summary tables/Receipts by type](#)

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